

## **Economic Spotlight**

### **Alberta's Housing Markets Boom**

#### **Summary:**

Alberta has experienced exceptionally strong growth in its housing market over the last couple of years, with housing starts increasing at double digit rates in both 2005 (13%) and 2006 (20%). So far in 2007, housing starts have kept pace with the record level of activity that occurred in 2006. Although all regions of the province have boomed, the timing has varied.

Below is a summary of how the housing boom worked its way through the province.

#### **It Started in Fort McMurray...**

With an unemployment rate reaching a low of 3.5% and investment in the oil sands topping almost \$10 billion in 2005, the number of people flooding to Fort McMurray for work rose by over 50% in 2005.<sup>1</sup> This put more pressure on the limited housing options available in the region and resulted in a 70% increase in the number of housing starts in 2005. Housing starts levelled off in 2006 due to a shortage of available serviced land, but have since jumped in 2007. Average resale house prices jumped 33% in 2005, 13% in 2006 and have increased a further 23% thus far in 2007.

Vacancy rates have hovered around zero for the past three years, resulting in average rents for a two-bedroom apartment increasing by over 35% since 2004.

#### **Then Grande Prairie.....**

Grande Prairie also felt the effects of a booming energy sector early on. A low unemployment rate (3.2%), a low vacancy rate (0.2%) and a large influx of people boosted housing starts by 14% in 2005 and an additional 49% in 2006. House prices reflected this surge, increasing by double digits in 2005 (15%), then 30% in 2006 and so far are up over 13% in 2007.

A CMHC regional study on Alberta noted that by the end of 2006, Grande Prairie had only one suite for rent, resulting in the vacancy rate dropping to 0.1%. Consequently, rental rates for a two bedroom unit in Grande Prairie were up 15% in April 2007 from October 2006, with Grande Prairie obtaining a higher rent than a similar unit would in both Calgary and Edmonton (\$1094 versus \$1,037 and \$877 respectively).

#### **Calgary in 2006**

Robust demand resulting from employment growth of 7.8% in 2006 and low housing inventory created a severely tight housing market in Calgary. Construction of new houses shot up 25% in 2006 (after a poor weather related construction year in 2005), while the resale market saw a flurry of activity and resulted in average resale prices increasing by almost 40%. The housing

---

<sup>1</sup> This does not include temporary workers or any increase in the 'shadow population'. It is Statistics Canada's estimate at migration into Wood Buffalo/Fort McMurray.

market was so tight that at least one seller conducted a house auction (something that is more common in other parts of the world). Home owners cashed in on consumer desperation and in most cases received well above asking price (on first offers) and no conditions placed on the sale of the home. By December 2006, the market had started to moderate, with some sellers reducing their asking price. The rental market felt the brunt of this active year as the vacancy rate plummeted below 1%.

### **Edmonton Plays Catch-up .....**

Edmonton's housing market followed Calgary in 2006, with resale prices increasing 30% as the surrounding area tried to accommodate the surge of migrants to the capital region. Although employment figures did not show much growth in 2006, housing starts saw an increase of 13% (following a 16% increase in 2005) and resale home activity picked up 18% in 2006. Rental vacancy rates dropped over 3 percentage points to 1.2% in 2006 and contributed to a 10% increase in rental rates for a two-bedroom apartment following two years of modest rent increases.

### **Red Deer**

With the advantage of being along the Edmonton-Calgary corridor and taking part in the economic activity spawning from this connection, Red Deer has attracted more than double the number of migrants in 2006 compared to 2004, posted on average just over 5% employment growth over the past three years (4.4% in 2005, 4.6% in 2006 and 6.3% so far in 2007) and continues to have a tight labour market with the unemployment rate currently hovering just above 3%.

At a quick glance, it looks like the Red Deer housing market seems to have been chugging along these last three years with strong stats posted in the resale market sales. New home starts began to ramp up in 2006 increasing 13% and have posted equally strong figures so far this year. MLS housing prices have followed suit with sharp price gains in 2007 (39%) on top of the already strong figures posted in 2006 (29%).

### **Medicine Hat**

Although Medicine Hat has experienced an increase of over 140% in migration levels since 2004, this is less than in most other centres. After seeing employment increase 6.5% in 2005, job creation was minimal in 2006 and has actually declined so far in 2007. The labour market continues to be tight with the unemployment rate averaging just under 4% so far in 2007. Housing starts rebounded in 2006 (up 28%) after a 22% decline in 2005 and have increased almost 5% this year. Activity on the resale market has been upward in direction, with its peak performance of sales in 2005. Prices have steadily increased over the last few years and continued into 2007 with a sales-to-inventory ratio of 67% (a sellers market).

### **Lethbridge**

Little in the way of housing starts activity occurred in the Lethbridge area until 2007, with housing starts now up almost 70%. All of the housing market activity occurred in the resale market over the past three years (2004-2006), which has posted double digit sales growth in each year. Although current sales in the resale market are currently down 10% so far in 2007, the two likely factors contributing to this decline are increased interest in the new home market and the

number of people waiting for their new home to be completed before listing their existing home. MLS house prices have increased almost 40% in 2007. With a slowing resale market and potential increase in inventory levels as the 70% increase in new home starts approach completion, these price gains may be dampened in the near future.

See Table 1 on the following page for a review of the regional economic indicators discussed above.

**Table 1: Regional Economic Indicators**

	Calgary	Edmonton	Wood Buffalo	Grande Prairie	Lethbridge	Medicine Hat	Red Deer
<b>Net Migration</b>							
2004	11,415	5,040	1,283	946	704	795	1,214
2005	20,397	11,536	1,957	2,182	2,180	1,292	2,609
2006	30,212	18,201	2,969	3,320	3,286	1,921	3,909
<b>Employment (% Chng)</b>							
2005	1.0	-0.9	-0.1	7.7	5.6	6.5	4.4
2006	7.8	1.9	5.1	4.1	-0.4	0.5	4.6
2007 YTD	5.8	6.7	7.5	3.1	-2.5	-2.8	6.3
<b>Unemployment Rate</b>							
2005	3.9	4.5	3.5	3.2	3.8	3.8	3.4
2006	3.4	3.9	4.4	3.2	3.1	3.1	3.9
2007 YTD	3.2	3.9	4.0	3.8	3.9	3.9	3.1
<b>Housing Starts (% Chng)</b>							
2005	-2	16	70	14	-6	-22	-5
2006	25	13	6	49	0	28	13
2007 YTD	-13.7	6.6	57.7	-6.7	68.5	4.7	13.9
<b>MLS Sales (% Chng)</b>							
2004	9	8	51	23	21	2	19
2005	19	6	12	27	10	18	19
2006	5	18	28	29	12	4	27
2007 YTD	1.2	-2.1	14.3	-8.6	-10.0	3.5	4.8
<b>MLS Prices (% Chng)</b>							
2004	6	9	13	11	3	8	9
2005	13	8	33	15	9	12	7
2006	39	30	13	30	21	14	29
2007 YTD	21.4	41.0	22.9	13.3	39.4	19.9	38.6
<b>Sales-to-Listings Ratio*</b>							
September 2005	81	69	76	97	89	80	93
December 2005	120	91	148	88	99	107	77
September 2006	46	71	96	64	76	69	67
December 2006	121	105	99	94	98	97	105
September 2007	36	27	90	54	42	67	40
<b>Rental Vacancy Rate</b>							
2005	1.6	4.5	0.3	0.2	2.7	2.1	1.3
2006 (October)	0.5	1.2	0.2	0.1	0.6	1.0	0.5
2007 (April)	0.5	1.1	0.2	0.9	1.3	1.7	2.1
<b>Average Rent (2-Bdrm \$)</b>							
2004	806	730	1,242	766	641	568	644
2005	808	732	1,478	790	647	583	666
2006 (October)	960	808	1,717	952	675	605	732
2007(April)	1,037	877	1,681	1,094	708	630	792

Source: Statistics Canada and Canadian Mortgage and Housing Corporation

\*Represents the number of sales divided by the number of new listings in a month. A ratio above 50 represents a sellers market, while a number below 30 represents a buyers market. A market is considered balanced if the number of sales-to-inventory ratio is between 30 and 50.